

INITIAL STATEMENT OF REASONS
FOR THE PROPOSED CHANGES TO THE
OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT'S
ACCOUNTING AND REPORTING MANUAL
FOR CALIFORNIA LONG-TERM CARE FACILITIES - Second Edition

The Office of Statewide Health Planning and Development (hereafter "OSHPD") proposes changes to the Second Edition of the *Accounting and Reporting Manual for California Long-term Care Facilities*, as amended January 10, 1997, (hereafter, the "Manual") and Section 97019 (which incorporates the Manual by reference) of Title 22 of the California Code of Regulations. OSHPD also proposes to delete Section 97020 of Title 22 of the California Code of Regulations.

ADMINISTRATIVE REQUIREMENTS, SPECIFIC PURPOSES, AND RATIONALE

The Health Data and Advisory Council Consolidation Act of 1984 (California Health and Safety Code Sections 128675 through 128815) requires a uniform system of accounting for non-federal California long-term care facilities and that all such facilities use that system in their books and records on a day-to-day basis. The uniform system provides the foundation for the collection and reporting of specific data on an annual basis to OSHPD. The underlying objective of the reporting requirement is to provide the public, the long-term care industry, and State policy makers accurate, uniform, and objective information regarding the revenues, expenses, assets, liabilities, equity, capacity, and utilization of California long-term care facilities. As public information, these data are and will continue to be available to officials at all levels of state and local government for their use in formulating and evaluating health system policies and in managing governmental health delivery programs. These data will also be available to health care consultants, employers, insurers, organized labor, and other health care purchasers who may use the information to make informed decisions in today's health care market. Finally, it is available to health service providers who may use the information for health facility management and strategic planning purposes.

The following revisions to the Manual are proposed:

1. Update a reference to the Health and Safety Code;
2. Clarify that Accounts Receivable may be recorded at full or gross established rates, but must be reported net of any contractual adjustments;
3. Correct the sample entries for recording revenue for care provided under capitation contracts;
4. Clarify that facilities must record a year end adjustment to their receivable from or payable to third-party payors, estimating their final reimbursement from the third-party payor for care provided during the year;
5. Clarify that lease and rental expenses for special beds and mattresses separately charged to patients must be accounted and reported as Specialized Support Surfaces, not as Leases and Rentals;
6. Clarify that overtime and bonuses are to be included in Salaries and Wages, and severance pay in Employee Benefits;

7. Eliminate the job title Practical Nurse from the definition of the salary and wage classification, Aides and Orderlies, and from the job title listing;
8. Correct an error in the instructions for report page 13, Computation of Ancillary Services per Patient Day;
9. Delete instructions to attach additional information to report pages 5.1 and 5.2, Balance Sheet, and report page 9, Statement of Cash Flows;
10. Clarify that the current portion of long-term payables to related parties must be reported as Payables to Related Parties, Current, not as Payables to Related Parties, Noncurrent;
11. Clarify the instructions for report page 9, Statement of Cash Flows;
12. Clarify the instructions for employee turnover information on report page 12.2;
13. Add an interpretation specifying the accounting and reporting of expenses related to the services of the Director of Nursing;
14. Include in the Account Distribution Index (ADI) an expense item for Flood Insurance, and correct the expense classification for Earthquake Insurance in the ADI from Administration to Property Insurance.

Section 97019, Accounting and Reporting Manual for California Long-term Care Facilities, of Title 22 of the California Code of Regulations is also being amended to reflect the effective date of the above changes.

Section 97020, Delayed Implementation of LTC Accounting Manual Second Edition, is being deleted because the time during which delayed implementation was allowed has passed.

The proposed changes would be effective 30 days after filing with the Secretary of State.

MANUAL CHANGES:

Manual Section 0002, Authority

This Section is being amended to update the reference to Health and Safety Code Section 443.31 to Section 128735. The Health and Safety Code has been renumbered since this Manual Section was last updated.

Manual Section 1053, Accounts Receivable

This Section is being amended to clarify that Accounts Receivable may initially be recorded at the facility's full or gross established rates, but for reporting purposes must be reduced to reflect any contractual adjustments. This change corrects grammatical errors in the current text of this Section.

Manual Section 1062, Accounting for Managed Care and Other Contracts

This Section is being amended to correct the sample entries for recording revenue for care provided under capitation contracts. The corrections specify that:

- Revenue accounts for various services may need to be credited when providing care under capitation contracts, because these contracts may cover all routine and ancillary services required by the patient covered by the contract, and,

- Any capitation contract advances remaining after all revenues for patient care have been recognized must be credited to a contractual adjustment account, not a revenue account, since all revenues have already been recorded at the appropriate full established rates;

The changes to this Section are needed to assure that all revenues are accounted and reported at their full established rates, consistent with the revenue accounting specified in Manual Section 1050, and the revenue account descriptions in Manual Section 3210.

Manual Section 3110.1, Current Assets

The definitions of Account 1050, Receivables from Third-Party Payors for Contract Settlement, and Account 2050, Payable to Third-Party Payors for Contract Settlement, are amended to clarify that facilities must record a year end adjustment to their receivable or payable to third-party payors, estimating their final reimbursement for care provided during the year. The changes are needed to assure that these receivables are accounted and reported on the accrual basis, consistent with the accounting specified in Manual Section 1020.

Manual Section 3220.3, Property Expenses

This Section is being amended to clarify that lease and rental expenses for special beds and mattresses separately charged to patients must be accounted and reported as Specialized Support Surfaces, Account 8150, not as Leases and Rentals, Account 7200. This Section currently only specifies that depreciation expenses for these beds and mattresses must be accounted and reported in Account 8150. This change is needed to assure that lease and rental expenses related to these beds and mattresses are also matched with their related revenues in Account 4150, Specialized Support Surfaces.

Manual Section 3240.1, Salaries and Wages

This Section is being amended to include overtime and bonuses in the description of Salaries and Wages, and to exclude severance pay. This Section is also being amended to specify that overtime and bonuses must be accounted and reported under the Salaries and Wages Classification (.00 through .09) of the employee receiving the overtime pay or bonus. These changes are needed because the classifications for these expenses are not currently specified. Salaries and Wages is the appropriate classification for overtime and bonuses, since overtime and bonuses are additional payments for services performed, consistent with the current description of Salaries and Wages.

This Section is also being amended to delete the reference to Practical Nurse in the description of Aides and Orderlies, expense classification .14. The title Practical Nurse is not in common usage in California long-term care facilities.

Manual Section 3240.2, Employee Benefits

This Section is being amended to include severance pay in the description of Employee Benefits, and to specify that Employee Benefits classifications .28 or .29 may be used to account and report severance pay. This change is needed because the expense classification for severance pay is not currently specified. Employee Benefits is the appropriate classification, since severance pay is not a payment for services performed.

Manual Section 3250, Example Job Title – Account Number Table

This Section is being amended to delete the listing of the job title Practical Nurse, consistent with the change for Manual Section 3240.1, described above.

Manual Section 4020.8, Instructions, Page 13

The Section is being amended to correct the instructions for completing column 2, lines 10 through 35.

Manual Section 4020.11, Instructions, Pages 5.1 and 5.2, Balance Sheet - General Fund

The reporting instructions for these pages are being amended to delete instructions to attach additional information. Long-term care facilities submit their reports electronically, and cannot attach information to these pages.

The instructions for these pages are also amended to clarify that the current portion of long-term payables to related parties must be reported as Payables to Related Parties, Current, page 5.2, line 45, not as Payables to Related Parties, Noncurrent, line 110. This change will assure that all current Payables to Related Parties will be separately identified within the current liabilities section of the balance sheet.

Manual Section 4020.15, Instructions, Page 9, Statement of Cash Flows – General Fund

The reporting instructions for this page are being amended to delete instructions to attach additional information. Again, long-term care facilities submit their reports electronically, and cannot attach information to this page.

The instructions for this page are also amended to clarify, to correct errors in the instructions, and to provide instructions for the reporting of a number of specific transactions affecting cash flows.

Manual Section 4020.16, Instructions, Pages 12.1 and 12.2, Labor Report

The reporting instructions for page 12.2, lines 605 through 630, are being amended to delete an unnecessary definition of labor turnover, to clarify which employees are to be reported on these lines, and to specify that the employee counts needed to complete these lines should come from a facility's personnel or payroll records.

Manual Chapter 5000, Interpretations

This chapter is amended to add an interpretation, Manual Section 5101, specifying the accounting and reporting of expenses related to the services of the Director of Nursing (DON), and to list this interpretation on the Chapter 5000 Table of Contents. The interpretation specifies that these expenses must be accounted and reported in the cost center(s) where the staff under the supervision of the DON work. If DON supervises staff in more than one cost center, the interpretation instructs facilities to allocate the expenses for the Director of Nursing based on the hours worked by the staff in each cost center. This change is needed to assure that all facilities account for these expenses in the same way.

Manual Appendix A, Account Distribution Index

The Account Distribution Index displays a list of common expense items with the account in which the items are to be recorded. The Index is being amended to include an expense item for Flood Insurance, and correct the expense classification for Earthquake Insurance in the Index from Administration to Property Insurance. The changes will assure that all facilities account for these insurance expenses as Property Insurance.

Other Regulatory Changes

Change CCR Section 97019 of Title 22, Accounting and Reporting Manual for California Long-term Care Facilities

Section 97019 incorporates the Manual by reference into the CCR, and specifies the effective date of the most recent amendments to the Manual. It also specifies that facilities must comply with the requirements of the Second Edition of the Manual by their first fiscal year beginning on or after January 1, 1993.

Section 97019 is being amended to delete the now obsolete references to the First Edition of the Manual, and to reflect the effective date of the above changes to the Manual.

Delete CCR Section 97020 of Title 22, Delayed Implementation of the LTC Accounting Manual Second Edition

Section 97020 provided facilities under certain conditions to delay compliance with the Second Edition of the Manual for one year. Section 97020 is being deleted, because it is now obsolete.

STUDIES, REPORTS, OR DOCUMENTS RELIED UPON IN PROCESSING AMENDMENTS

In November 1997, the Office determined that some facilities were reporting expenses related to the Director of Nursing in the Administration cost center. Because the report submitted to the Office is used by the Department of Health Services as the long-term care facility Medi-Cal cost report, the Office consulted with the Department for assistance in determining the correct reporting of these expenses. We received a December 5, 1997 letter from Robert A. Gennuso, Chief of the Department's Financial Audit Branch in Fresno, which was used in the development of the interpretation in Manual Section 5101, Director of Nursing.

ALTERNATIVES CONSIDERED

OSHPD has determined in accordance with Government Code Section 11346.14 (b) that no alternative considered by OSHPD would be more effective in carrying out the purpose for which the actions are proposed or less burdensome to affected private persons than the proposed actions.